

**Address by Steve Preston**

**Administrator, Small Business Administration**

**New Markets Tax Credit Coalition**

**Wednesday, December 13, 2006**

Thank you for having me.

Your invitation is particularly meaningful to me because we share a strong interest and desire to stimulate private investment, create jobs, and finance business development in America's underserved communities; which I believe is critical to expanding the ownership society that President Bush speaks so passionately about.

The Small Business Administration can open doors of opportunity for millions of Americans through access to capital, training and counseling, access to federal contracts, and advocacy. That's our mandate, and with the help of people like those assembled here, we're making major progress.

I want to begin today by noting how many great things we've seen from the American economy in recent years.

- We've seen record growth of our economy, economic-growth that has equaled the size of the entire Chinese economy since 2003

- We've seen consistently strong job creation— 7 million jobs created in just three years - and as a result, an enduringly low unemployment rate in our country
- and we've seen growth of opportunity and ownership throughout our society.

But when we celebrate this success, we need to celebrate the engine that drives it – the entrepreneurs of our country.

- They drive our economy.
- They create our jobs – 70% of them
- They fulfill dreams, not only for themselves and their families, but for those they employ and those they serve.
- They sustain and transform communities

Entrepreneurs enable an economy driven by innovation and regeneration which keeps our country competitive. Three-quarters of the Fortune 100 companies last year were not even on the list 25 years ago. That is a story of business incarnation and growth which has defined the last half century of our economic history.

We need to ensure that our country maintains this environment,

- where entrepreneurship and innovation can thrive unfettered, and

- where small business ownership can enable economic mobility and continue to be the hand of opportunity to so many Americans who may not find that opportunity elsewhere.

In fact, it may be our country's strongest bridge to opportunity for Americans of all backgrounds, and for that reason, it should be the goal of our economic policy to keep that bridge open, expansive, and sturdy.

That is foundational to who we are as a people and a nation. And, in so many ways, the entrepreneur's spirit is the essence of our nation's greatness, and their accomplishments are its reflection.

You have through your commitment to entrepreneurship, reaffirmed a truth of American life and American history – a truth about the *transformative* power of small business.

Because of your work, many of you know and worked with businesses in communities that have not fully shared America's promise. By starting those businesses, they have brought jobs and services and opportunity to places where they have often been in short supply. I believe so strongly in the ability of small businesses to drive transformation in our communities, and have begun to work with my own leadership team and others outside the agency to understand how we can be more effective in helping to unlock that power.

- I talk a lot about communities.
- Communities are where we live.
- They are where we raise our children and see their surroundings shape them.
- Communities are the heart of who we are as a country—they are for each of us *our* America.
- And they are where we see the hope of a vibrant, free society become a reality....or not.

It's the readiness to stick out their chins, the grit to stick out the hard times, the commitment not just of capital but of passion, the devotion when others falter, all of this that puts small businesses at the heart of strong communities throughout our country. Small businesses take risks that others won't take, because they believe in a vision.

Their founders match every dollar they invest with ten dollars of sweat equity – and as a result where others find a wall, again and again they find the door of success. That is exactly why, we need thoughtful, fiscally responsible policies to unleash the power of entrepreneurial capitalism in underserved markets in this country. Driving successful, sustainable, business formation into underserved markets can absolutely CHANGE THE GAME for millions of Americans.

One of the most encouraging aspects of my coming into this role has been the many stories I have heard from people who started their businesses with the help of the SBA. You know people who have been in that position. When the SBA backed them, it was not only enabling the American Dream, but doing so in a way that provides dividends for individuals, communities and our nation.

The people of the SBA have the honor of being involved in very special ways to enable the American dream by providing capital, providing training and counseling, by helping small businesses compete for government contracts, and by advocating on their behalf.

You know when I made the decision to leave the private sector, many people were surprised. I am here because, I want to see entrepreneurial capitalism expand and grow. I want to do all I can to help that system become stronger and deeper – especially in our communities that need it the most.

So when I became administrator of the SBA, I wasn't accepting a job. I was accepting a mission—and one that I am passionate about.

In looking at the record, I have been encouraged by the progress the SBA has made in recent years.

We are an agency that supports millions of customers, extends or guarantees almost \$80 billion in credit, and works with Federal Agencies in almost \$80 billion of Small Business procurements.

And during the Bush Administration, overall SBA lending is up 99 percent and lending to minority entrepreneurs is up 152 percent. The number of entrepreneurs receiving SBA counseling is up 40 percent. And the amount of government contracting dollars that have gone to Small Business has increased, over \$35 billion since FY00, with dollars to small disadvantaged businesses up to almost \$22 billion in FY05, and dollars to HUBZone business up to \$6.1 billion.

We are going through the process of crystallizing our mission, and ensuring that our policies, our products, our processes, our *people, and our partners* are aligned in advancing that mission.

Over the last five months, I have spent a lot of time listening to our employees, our legislators, trade associations, our partners, and most importantly, directly to our customers.

And I have come to the simple conclusion that the most important progress we can make is in applying good solid business principles to the work we do – much as the small businesses we serve do every day in their businesses.

And as such, we are approaching these issues by asking four basic questions we are using as our guideposts.

**First**, are we focused on the right outcomes? Who are we serving? Why? And do we drive the outcomes we think are most important to our target customers. Frankly, that's one reason why I am here today, because we need to get very focused on serving the underserved communities in our country—like the inner-city and rural markets, and I think we could do a lot better job of it.

**Second**, are we truly focused on what is important to our customers and our partners? Do we understand what the people we serve need, and are we doing business on their terms?

If there is too much friction in the process, if we are too slow, and if we are tough to work with, we will choke off our effectiveness because the value of our services will be diminished by the difficulty in using them. We have a lot of opportunity to simplify life for our customers.

**Third**, are we enabling our employees? Any organization that serves people must have an employee base that is motivated and enabled to provide that service. So we need to ask:

Are we working to give our employees the tools, training and work environment they need to serve our customers and partners effectively and enthusiastically?

**Finally**, are we transparent, efficient, and accountable? Are we running a tight ship? Every day, are we working in a way that earns your trust? We have to make sure that we responsibly use every dollar the taxpayers give us.

Transparency equals trust. Like every part of government in a democracy, we have a bedrock obligation to work every day to deserve the public's trust.

- Outcomes driven
- Customer focused
- Employee enabled
- Accountable, efficient and transparent

It is so important that we drive these principles, because we open the doors of entrepreneurship to those who have the vision and drive but fall short in access to capital – or could use experienced counseling – or want to have a level playing field to sell goods and services to the federal government. And if we are not doing that effectively, it is a great loss for all of us.



Let me give you an example of how we are applying these principles at the SBA. Some of you may realize that the SBA provides disaster loans both to small businesses and to homeowners.

Following the hurricanes that struck our country last year, the SBA responded by approving more than \$10.7 billion in low-interest disaster loans to more than 160,000 businesses, homeowners and renters. But most of that money is still not disbursed – for various reasons – some of which we can fix.

Every day that a loan disbursement is delayed is a day that someone hasn't got his or her life back.

We all pray that we will never see another Katrina. But we need to make sure that we take lessons from Katrina – and put the processes in place so that we can respond to disasters, irrespective of the scale. Our people care about this. I care about this. And I can promise you, our President cares very deeply about this.

How have we begun to address the issue? We have spent time in the Gulf and listened to our customers tell their stories. In fact, we even videotaped customer interviews to bring back to our employees, so they could hear the voice of the customer. They told us a few things.

First, every time they called, they talked with someone different, which meant that they often had to reeducate our people, and sometimes they got conflicting stories. Second, people often had to send us the same information more than once before it got to the right place. Finally, we were way too slow.

In late August, we took what we learned to a three day off-site meeting where we assembled leaders from our disaster operations, talent from our Washington operation and external process design experts, and began to lay out a vision, backed by detailed process redesign initiatives to finish the Katrina job quickly, and to ensure that we drive that operation to a higher standard than ever before. We have entirely redesigned our work processes.

In just over a month:

- We fully redesigned our work processes, moving 1,300 people from a production line to case-management teams, so that:
  - Every disaster victim has one case manager to work with through the process and one person to send the information to.

- Every case manager is responsible for coaching and staying on top of each customer's situation.
- We have called all 94,000 customers to make sure we understand their status and what we each need to do to get the job done.
- Within a month, we had doubled our disbursement volumes. Our primary area of backlog is down over 85% as is our response time. We took that 94,000 outstanding customers down to 34,000, and those people have all begun to receive their funding.
- And we are driving hard, with high production goals, to get caught up.
  - We are driven by a clear outcome
  - We are focused on the customers
  - We are enabling our employees with better tools and processes
  - And we are establishing clear accountabilities in the process.

Let me tell you about a series of other actions we are taking to improve the success of small businesses in the federal contracting arena, as well as the transparency and accuracy of contracting data reported.

As many of you know, the government has a statutory goal of procuring 23% of its goods and services from small businesses, with other subsidiary targets for businesses owned by women, certain disadvantaged groups, and service disabled vets and HubZone firms.

First, we have tightened up the definitions around what counts as a small business to ensure that the right firms are getting the business. For example, no longer will small businesses bought by large businesses count. We are insisting that data on small business procurements be improved, because too much of the data is inaccurate. We have introduced a scorecard, which will be made public, for 24 agencies to score how well they are doing in meeting their small business targets, which will include HubZone targets.

We are committed to creating an environment where small businesses will flourish, and enter the federal marketplace as equal competitors, and we are taking actions to advance that objective.

Why am I telling you all of this? Because with the right focus and attention, we can make change very impactful for the people we are all here to serve. And we, at the SBA, are driving for that change and, in fact, have any number of significant initiatives that we have kicked off to that end.

Let me tell you a bit about what we are doing to improve our efforts in distressed areas.

- We are expanding our Community Express Pilot, which couples a guaranteed loan with much-needed training and targets businesses in distressed markets. We are also looking at our lender penetration in key markets to understand how we can work better through lender outreach.
- We moved beyond the pilot stage in the Urban Entrepreneur Partnership program which is designed to work with local Urban Leagues to give inner city entrepreneurs a place to go to locate multiple forms of financial and technical support. There are now six sites, and we are working on a strategy to expand the program.
- We have added alternative work sites in rural areas of our country, where entrepreneurs have a difficult time finding access to the resources in more heavily populated areas. We will continue to evaluate the benefit of this strategy to see if we can or should open more such sites.

- We recently announced a pilot to allow Community Development Entities in the New Markets Tax Credit program to purchase SBA loans from lenders, thereby making those loans more financially attractive and freeing up capital for those banks to make more loans in distressed areas.
- Yesterday, I spoke at the HUBZone Conference. We are rolling out tools to make it easier for HUBZone firms to bid on government contracts and for federal contracting officers to find HUBZone firms.
- That is all good stuff, but I would tell you, we have not yet completed a cohesive, integrated strategy for how we, as an agency, should be working in these markets. We are in the midst of putting together a focused, committed effort to design a strategy for how we work locally to deliver all of the tools of our programs as well as those of other federal, state, and local programs to support entrepreneurship, and for what products and services we need to do that effectively. Obviously, capital availability is a critical component.
- Finally, I expect to name a new leader in the SBA, reporting directly to me and working closely with me, to crystallize and drive forward out strategy in underserved markets.

So, as should be clear by now, I am passionate about reforming government to leverage the transformative power of entrepreneurial capitalism in our most disadvantaged areas. We are still very much in the process of listening to our colleagues in the field and learning what works.

To that end, I'd like to conclude by not only offering to take questions but asking for input and advice from you. Honestly, we are still forming our strategy on capital formation, so your insights and guidance could be extremely helpful to us as we move forward.

Thanks so much for having me today.